

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 0904

INFO AMCONSUL HONG KONG

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HONG KONG FOR REGIONAL TREASURY REP

E.O. 11652: N/A

TAGS: ECON, PDEV, TW

SUBJECT: ROC ECONOMIC POLICY AND FORECASTS

REF: STATE 206746 (NOTAL)

1. REGRET THAT NECESSITY TO CONCENTRATE EFFORTS IN LAST
COUPLE OF WEEKS ON COMPLETION OF SEMIANNUAL TRENDS
REPORT HAS DELAYED OUR RESPONSE TO REFTEL.

2. CONCERNING NEW ECONOMIC GROWTH FORECASTS (PARA 2
REFTEL), WE CAN RECONFIRM AS EARLIER REPORTED THAT ECONOMIC
PLANNING COUNCIL (EPC) HAS SUBMITTED A SEMIANNUAL REVIEW
TO THE EXECUTIVE YUAN IN WHICH GNP REAL GROWTH ESTIMATE WAS
REVISED UPWARD TO 9.9 PERCENT FROM ORIGINAL FIGURE OF 6.4 PERCENT.
REVISION WAS BASED ON FACT THAT EXPORT TRRADE HAS REVIVED AT A MUCH
FASTER RATE THAN HAD BEEN ANTICIPATED AT THE BEGINNING
OF THE YEAR. SPECIFICALLY, EPC NOW FORECASTS THAT REAL GROWTH
OF EXPORTS WILL BE ALMOST THREE TIMES GREATER THAN THE
ORIGINAL ESTIMATE, AS INDICATED IN FOLLOWING TABLE:

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EXPENDITURE ON GROSS DOMESTIC PRODUCT - 1976

(IC MILLION NT DOLLARS)

COMPONENT	ORIG. ESTIMATE	REV. ESTIMATE
	(RATE OF INCREASE IN PARENTHESES)	
PRIVATE CONSUMPTION	333.1 (4.8)	334.0 (5.0)
GOVT CONSUMPTION	95.0 (4.5)	95.9 (2.7)
FIXED INVESTMENT	174.5 (7.3)	195.3 (17.9)
INVENTORY CHANGE	2.3 (--)	MINUS 20.5 (--)
EXPORTS	248.0 (11.3)	297.1 (30.5)
IMPORTS	269.7 (11.7)	293.4 (18.7)
GDP	583.2 (6.4)	608.4 (9.9)

3. WE ARE STILL UNABLE TO PROVIDE TEXT OF EPC'S REVIEW SINCE IT HAS NOT BEEN RELEASED BY THE EXECUTIVE YUAN. FYI, ACCORDING TO ONE SENIOR EPC OFFICIAL, THE GOVERNMENT INTENDS TO SIT ON THE REPORT INDEFINITELY BECASUE IT DOES NOT WANT IT TRUMPETED IN THE PRESS AS "GOOD NEWS" AT A TIME WHEN THE PRIVATE SECTOR, CHAFING UNDER A TIGHT MONEY POLICY (SEE BELOW), DOES NOT CONSIDER CONDITIONS TO BE SO FAVORABLE. END FYI.

4. CONCERNING THE DEPARTMENT'S APPARENT IMPRESSION THAT GROC MAY BE SHIFTING THE EMPHASES OF ITS ECONOMIC POLICIES, WE SEE NOTHING IN THE PRESENT SITUATION TO SUGGEST THAT THIS IS ACTUALLY THE CASE. GROC POLICY HAS EMPHASIZED PRICE STABILITY SINCE THE BEGINNING OF THE YEAR AND WE ANTICIPATE THAT THIS WILL CONTINUE TO BE TRUE FOR THE IMMEDIATE FUTURE AT LEAST. IN THE ORIGINAL DEVELOPMENT PLAN FOR AQOUY IT WAS EXPECTED THAT WAGE INCREASES AND THE RISING COST OF IMPORTS WOULD RESULT IN AN INFLATION RATE OF 6 TO 7 PERCENT, AND POLICY MEASURES WERE PLANNED ACCORDINGLY. AS THE SITUATION DEVELOPED, OF COURSE, THE INJECTION OF UNEXPECTED FOREIGN ASSESTS INTO THE MONETARY SYSTEM HAS ADDED TO THE INFLATIONARY PRESSURES ALREADY PRESENT. AS A RESULT, ANTI-INFLATIONARY MEASURES HAVE SIMPLY BEEN INTENSIFIED TO KEEP PRICE INCREASES WITHIN WHAT GROC CONSIDERS TO BE ACCEPTABLE BOUNDS. AS ITS POLICY TOOL FOR THIS PURPOSE GROC HAS CHOSEN TO PROGRESSIVELY LIMIT INCREASES

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IN THE MONEY SUPPLY TO RESTRAIN THE GROWTH OF DOMESTIC CREDIT. THE EFFECTS OF THIS POLICY ARE READILY APPARENT FROM THE ECONOMIC INDICATORS: GROWTH OF THE MONEY SUPPLY WAS AT AN ANNUAL RATE OF 38 PERCENT IN JANUARY; IN JULY IT HAD BEEN REDUCED TO 15 PERCENT; GROWTH OF DOMESTIC CREDIT WAS AN ANNUAL RATE OF 32 PERCENT IN JANUARY; IN JULY IT WAS DOWN TO 20 PERCENT (VERY LOW IN RELATION TO VOLUME OF INDUSTRIAL OUTPUT AND EXPORTS). ON THE OTHER SIDE

OF THE COIN, WHOLESALE PRICES INCREASED ONLY 3.6 PERCENT AND CONSUMER PRICES LESS THAN 2 PERCENT BETWEEN JANUARY AND JULY.

5. ADJUSTMENT OF INTEREST RATES IN ANOTHER POLICY TOOL WHICH COULD HAVE BEEN USED WITH PERHAPS THE SAME RESULTS, BUT GROC HAS DECIDED FOR THE PRESENT NOT TO CHANGE THE RELATEVELY LOW INTEREST RATE STRUCTURE ESTABLISHED DURING THE RECESSION. AS A SIDE EFFECT OF THIS DECISION, CREDIT--IN ADDITION TO BEING SCARCE--IS PROBABLY ALSO BEING RATIONED INEFFICIENTLY, WITH MANY BORROWERS BEING FORCED INTO THE UNORGANIZED SECONDARY MARKET WHERE RATES RANGE UP TO 2.5 PERCENT PER MONTH.

6. WE ARE SOMEWHAT PUZZLED BY DEPARTMENT'S REFERENCE TO MINISTER SUN'S REMARKS AT THE OPENING SESSION OF A RECENT CONFERENCE ORGANIZED BY ACADEMIA SINICA. THE REMARKS WERE BASED ON A BRIEFING PAMPHLET PREPARED BY THE ECONOMIC AFFAIRS MINISTRY IN JULY, A COPY OF WHICH WE HAVE ALREADY AIRPOUCHED TO EA/ROC. OUR READING OF THE PAMPHLET DID NOT INDICATE THAT MINISTER SUN WAS CHARTING A NEW COURSE FOR ROC ECONOMIC DEVELOPMENOXOR SUGGESTING ANY DEPARTURE FROM PRESENTECONOMIC POLICY. UNDER A SECTION ENTITLED "DIRECTIONS OF FUTURE EFFORT" THE PAMPHLET LISTS TWO MAIN OBJECTIVES AS "(1) STRENGTHENING THE ECONOMIC BASE TO REDUCE RELIANCE ON THE EXTERNAL SECTOR IN ORDER TO IMPROVE THE ABILITY TO COPE WITH EXTERNAL ECONOMIC CHANGES; AND (2) IMPROVING THE PRODUCTIVE STRUCTURE TO STRENGTHEN THE ABILITY TO COMPETE IN INTERNATIONAL MARKETS." THESE APPEAR TO BE MERELY PARAPHRASES OF THE BROADLY STATED LONG-TERM OBJECTIVES STATED IN THE SIX-YEAR DEVELOPMENT PLAN. THESE OBJECTIVES REFLECT GROC'S DESIRE TO MOVE THE COUNTRY'S INDUSTRY ONTO A HIGH TECHNOLOGY BASE WHICH, OF COURSE, IS THE NEXT LOGICAL STEP FOR ROC ECONOMIC

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DEVELOPMENT. WE DO NOT BELIEVE THAT IN PURSUING THESE OBJECTIVES, GROC HAS IN MIND CHANGING ITS BASIC (AND LONG-STANDING) ECONOMIC POLICY OF PROMOTING GROWTH WITH STABILITY.

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